

# **CABEI Central American Fund plc** **CABEI Central American Portfolio**

**Annual Report & Audited Financial Statements**

For the Year Ended 31 December 2010



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## **CABEI Central American Fund plc CABEI Central American Portfolio**

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# Organisation

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## **Registered Office of the Company**

25/28 North Wall Quay  
Dublin 1  
Ireland

## **Investment Manager**

DWS Finanz-Service GmbH  
Mainzer Landstrasse 178-190  
60327 Frankfurt am Main  
Germany

## **Administrator, Registrar and Transfer Agent**

Bank of Ireland Securities Services Limited  
New Century House  
Mayor Street Lower  
International Financial Services Centre  
Dublin 1  
Ireland

## **Custodian**

The Governor and Company of the Bank of Ireland  
Head Office  
*From 1 July 2010:*  
40 Mespil Road  
Dublin 4  
Ireland

*Up to 30 June 2010:*

Lower Baggot Street  
Dublin 2  
Ireland

## Place of Business

New Century House  
Mayor Street Lower  
International Financial Services Centre  
Dublin 1  
Ireland

## **Independent Auditors**

KPMG Chartered Accountants & Registered Auditors  
1 Harbourmaster Place  
IFSC  
Dublin 1  
Ireland

**Registered No: 303448**

## **Directors of the Company**

Walter Dostmann (German) (Chairman)

Directors from Central American Bank for  
Economic Integration:

Alejandro Rodriguez (Costa Rican)  
Nick Rischbieth Glöe (Honduran)

Directors from DWS Finanz-Service GmbH:  
Markus Kohlenbach (German)

Other Directors:

Per Åke Rydberg (Swedish) (Irish Resident)  
Michael Greene (Irish)  
Jaime Chavez (Honduran)  
Mario Arana (Nicaraguan) (Retired September 2010)

## **Secretary**

Goodbody Secretarial Limited  
North Wall Quay  
International Financial Services Centre  
Dublin 1  
Ireland

## **Consultant**

PCS Global Advisory Services LLC  
614 King Avenue  
City Island  
New York  
NY 10464-1111  
USA

## **Legal Advisor**

### **Sponsoring Broker**

A&L Goodbody  
North Wall Quay  
International Financial Services Centre  
Dublin 1  
Ireland

# Background to the Company

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## Description

CABEI Central American Fund plc, incorporated on 12 March 1999 in Dublin, Ireland with registered number 303448, is a designated, limited liability, open-ended investment company with variable capital. It is an umbrella Company entitled to issue several classes of Shares to be invested in several portfolios. The Company has issued Shares in the CABEI Central American Portfolio (the "Portfolio"), which is the only current portfolio. The Company is administered by Bank of Ireland Securities Services Limited. The Investment Manager, DWS Finanz-Service GmbH, is an indirect subsidiary of Deutsche Bank AG. The Portfolio is denominated in US Dollars.

The Company is domiciled in Ireland. It is authorised in Ireland as an investment company and is a designated investment Company pursuant to Section 256 of the Companies Act, 1990, of Ireland and is supervised by the Central Bank of Ireland (formally known as the Financial Regulator until 30 September 2010). The shares of the Portfolio are listed in the Irish Stock Exchange.

## Investment Objective and Policy

The Portfolio's investment objective is to generate a high real rate of return. The Portfolio seeks to achieve this objective by investing primarily in debt and related instruments and equity and related instruments issued by sovereign issuers, their agents and instrumentalities, state-owned issuers selected for privatisation, corporate issuers, supranational issuers, quasi-governmental issuers, and any other issuer deemed fit for investment by the Directors, or a committee thereof. Countries for investment will include Guatemala; the five founding member countries of the Central American Bank for Economic Integration (CABEI), namely, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua; CABEI's seven extra-regional members, namely, Argentina, Colombia, Dominican Republic, Mexico, Panama, Republic of China and Spain; and CABEI's single beneficiary member, Belize.

The Portfolio's investment and borrowing restrictions are detailed in a Supplement to the Offering Circular issued on 24 July 2007. Although the Portfolio is not a UCITS (Undertakings for Collective Investment of Transferable Securities) fund, the Directors have resolved to apply the restrictions on investment and borrowing which apply to UCITS funds to the Portfolio, as a consequence of European Union directives.

## Investment Management

DWS Finanz-Service GmbH serves as Investment Manager pursuant to an investment management agreement dated 31 December 2004.

## Net Asset Value

The Net Asset Value of the Portfolio is calculated daily for every day that is a business day in Dublin and New York. The Net Asset Value of the Portfolio is calculated by dividing the value of the Portfolio's Net Assets (the value of its assets less its liabilities) by the total number of Shares outstanding. All securities held by the Portfolio, for which market quotations are readily available, are valued at the closing price on the primary exchange quoted for the securities (but if bid and ask quotations are available, at the last current bid price, rather than the quoted closing price). Debt securities are valued by independent pricing services approved by the Trustees of the Portfolio. If the pricing services are unable to provide valuations, the securities are valued at the most recent bid quotation or evaluated price as applicable, obtained from a broker-dealer. Such service may use various pricing techniques, which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes.

## **Background to the Company (continued)**

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### **Net Asset Value (Continued)**

All other securities and assets, for which market quotations are not readily available, are taken at probable realisation value as determined in good faith by the Directors (or by a pricing committee of Directors established for the purpose), with the approval of the Custodian, although the actual calculation may be done by other competent and responsible persons. Any assets or liabilities, initially expressed in currencies other than US Dollars, are translated into US Dollars at the closing rate of exchange quoted by a recognised pricing service. The Portfolio's Net Asset Value per Share is published in the Financial Times, and available on Thomson-Reuters and Bloomberg electronic platforms.

### **Issue and Repurchase of Shares**

The procedures for the issue and repurchase of shares are described in detail in the revised Offering Circular dated 1 January 2005, and subsequent supplements to the Offering Circular. The Portfolio's Dealing Day is every day that is a business day in Dublin and New York.

### **Issue of Shares**

Allotments of Shares are normally made with effect from a Dealing Day against applications received in Dublin by the Administrator by 9:00pm Dublin time on the preceding Business Day. Requests for the purchase of Shares may be made by facsimile, email or in writing to the Administrator. Transaction settlement occurs the business day following Dealing Day.

### **Repurchase of Shares**

Requests for the repurchase of Shares must be received by the Administrator by 9.00pm Dublin time on a Business Day which is at least two Business Days prior to the relevant Dealing Day and will then normally be dealt with on that Dealing Day. Requests for the repurchase of Shares may be made either by facsimile or in writing to the Administrator. Transaction settlement occurs the business day following Dealing Day.

### **Published Information**

Shareholders will receive audited annual and unaudited semi-annual Reports of the Company on request. Notices of general meetings will be sent to Shareholders at least twenty-one days prior to meetings. The Net Asset Value per Share and dividend announcements, if any, are published in the Financial Times. The subscription and redemption prices may be obtained from the registered office of the Company.

A statement of changes in the composition of the portfolio during the year will be made available to Shareholders on receipt of a written request.

Past performance is not necessarily a guide to future performance. Income from the investment may fluctuate in value in money terms. Changes in rates of exchange between currencies may cause the value of the shares to diminish or increase.

Enquiries to:

Bank of Ireland Securities Services Limited/ Attn: IFSC Client Services

New Century House

Mayor Street Lower

International Financial Services Centre

Dublin 1

Ireland

Tel: 353 1 6700300

Fax: 353 1 8290144

The above details are in summary form only and must be read in conjunction with the detailed information contained in the revised Offering Circular dated 1 January 2005, and subsequent supplements to the Offering Circular.

# Investment Manager's Report

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The net asset value per share of the CABEI Central American Fund was up 8.35% for the twelve months ended 31 December 2010. At the end of the annual period, the Fund had net assets of US\$ 96.1 million and a net asset value of US\$ 1,785.64 per share.

## Developments in global economies and financial markets

In 2010, global market developments were driven by various headlines coming out of core countries (US, EU). In the US, the ongoing loosening of economic policy and the impact on financial markets were the most important issues. Meanwhile, the unfolding of the sovereign debt crisis in periphery countries of the Euro area remained the major European topic weighing on risk sentiment.

In early October 2010, the Federal Reserve Bank announced another round of quantitative easing for monetary policy (QE2). The major difference compared to previous measures was that the fresh buying of US Treasury bonds is focusing on shorter maturities only. Thus, the expected support from this announcement for the US government bond market did not materialize. Instead, yields in the US rose across the board, with recorded increases of 80 to 90 basis points for maturities between 5 and 30 years. This development was also driven by an ongoing rebound of many economic indicators in the US, which have reduced concerns that the biggest economy in the world might face risks of a “double dip” scenario. To add more, the US government has also been taking additional fiscal measures to support the recovery by extending tax exemptions for all income classes into 2011. While this will cause GDP growth to come in higher than expected in the first half of 2011, there is an additional negative impact on fiscal accounts.

The overall policy stance of US institutions paints a clear picture: the biggest concern for policymakers is still that the economy suffers from deflation. Thus, all efforts will be taken to avoid this, and risks of a spike in inflation are not the major issue for authorities right now.

Taking a closer look at developments in Western Europe, one has to acknowledge that there were hardly any changes to the picture seen in previous quarters. Some economies (like Germany) are still on track for recovery at higher-than-expected growth rates. Meanwhile, the weaker countries (Greece, Ireland, Italy, Portugal, Spain) have not been able to achieve reasonable progress in their attempt to stabilize market sentiment and lower the yields paid on their debt. Even though the respective governments have implemented harsh fiscal consolidation programs, financial market investors remained sceptical.

The economic growth story still looks good in most emerging countries. The huge fiscal stimulus of previous quarters has worked through into domestic demand, and a moderate recovery in export demand is also helping. Private consumption has developed as a positive factor in a few countries, though mostly to the bigger emerging economies. Finally, the benign inflation outlook and the related stable interest rate policy is also supportive for domestic demand in many emerging economies. External accounts of emerging economies remained in good shape. The positive development in current account balances and persistently strong capital inflows contributed to further impressive stock-piling of foreign exchange reserves by many central banks. Another positive factor worth highlighting is the sound stance of fiscal policy, which is (among others) shown by the level of public debt. A reasonable number of countries still have public debt ratios below 50% of GDP. More importantly, a stabilization of debt levels has already taken place in 2010, again, after the expansionary stance of fiscal policy led to higher public debt levels in 2009.

# Investment Manager's Report (continued)

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## Latin & Central American economic situation and outlook

The region continues to recover, with exports rebounding and domestic demand gaining momentum. However, the future path of recovery is largely dependent on the evolution of the US economy. In all countries, the recession hammered tax revenues last year, leading to a deterioration of fiscal balances. Stronger growth in 2010/11 lets revenues increase but fiscal balances have not yet shown much improvement. In Costa Rica, increased fiscal expenditure is likely to lead to an even wider deficit in 2010. Guatemala also faces a slight deterioration in the fiscal deficit, although the finance minister already emphasized that there is no room for expenditure increases. In El Salvador, there is not much agreement on a fiscal reform. Accordingly, fiscal developments need to be closely monitored going forward.

Amid stronger domestic demand and a rebound in energy and food prices, inflation is increasing. Given the mixed outlook for the US economy, though, central banks in Latin and Central America are unlikely to aggressively tighten monetary conditions. As economic improvement and the reversal in commodity prices leads to higher import values, current accounts in the region are about to deteriorate. Hence, it is all the more important to attract foreign direct investment inflows to cover the deficit. In Costa Rica and Panama, the positive growth momentum stays intact. Guatemala is recovering at a slower pace but one has to keep in mind that the country was much less affected by the crisis than regional peers. El Salvador, Honduras and Nicaragua continue to face bigger challenges which will take the three countries longer to recover.

Most of South America's economies posted a solid recovery in 2010. Domestic demand is about to pick up most rapidly in Brazil, Peru and Chile but also gains momentum in other countries. Colombia has started to pick up, too, with less momentum though. Mexico remains a laggard due to less fiscal flexibility and stubbornly weak domestic consumption. Improving international trade, especially Asian demand, supports Latin America's more open economies, primarily its commodity exporters. Last year's larger-than-expected narrowing of current account deficits is about to reverse in 2010/11. Sound fundamentals coupled with a good business environment in a number of countries is expected to attract foreign direct investment, with Brazil and Colombia likely seeing the largest amount of flows. Fiscal accounts experience some relief on the back of increased revenues amid the rebound in GDP growth. Inflation is accelerating, but still not worrisome in most countries. Nevertheless, some central banks (Brazil, Chile, Peru) have already resumed a (precautionary) monetary tightening cycle as the output gap moves into positive territory.

## Developments in emerging debt markets

Global investors continue to show substantial interest in the asset class "Emerging Markets fixed income". The sound economic development in a large number of countries and broad diversification opportunities across different regions are the main drivers behind the inflows to EM funds. In addition, investments in (higher rated) emerging market bonds are also considered an alternative to investments in peripheral European countries. Strong investor sentiment was reflected in substantial spread tightening over the course of 2010. However, higher volatility and temporary setbacks occurred and cannot be ruled out going forward, given the situation in peripheral countries in Europe and the discussions about US growth.

# Investment Manager's Report (continued)

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## Investment strategy

Fund management's focus on strategic positions in countries with sound economic fundamentals (Costa Rica, Guatemala, Panama) has paid off well in 2010. The CABEI Central American Fund profited from the Panamanian bonds' good performance on the way to the country's upgrade to "investment grade". Costa Rica also profited from the rating upgrade to investment grade space, awarded by Moody's. Local bonds of Mexico also continued to perform well, particularly driven by increased inflows from foreign investors ahead of the country's inclusion in Citigroup's global bond index.

In Colombia and Panama, holdings were raised. In the case of Panama, the solid fundamental outlook and still attractive valuation versus peers were the main drivers for the decision. In Colombia, better-than-expected economic data and positive momentum after the presidential elections made us increase our exposure there. After the International Monetary Fund expressed some cautious optimism in the course of its first review of the Stand-by Arrangement, we took the opportunity and bought some more bonds of El Salvador. There is currently no intention to build up a position in Argentina, as political and economic uncertainty is still considered high and significant new issuance of bonds might flood the market. Corporate exposure is low and primarily focused on less-correlated names (like ICE-linked note or Guatemala's electricity company).

Uncertainties regarding peripheral European countries and a mixed outlook for the US economy continue to drive global financial markets. Fund management will continue to closely follow these economic developments and will also incorporate trends in global risk sentiment when setting the Fund's investment strategy.

*On behalf of the Investment Manager,  
DWS Finanz-Service GmbH*

*Stefanie Ebner, CFA  
Portfolio Manager*

*Dr. Nicolas Schlotthauer, CEFA  
Portfolio Manager*

**18 January 2011**

# Director's Report

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The Directors present herewith the Annual Report and audited Financial Statements for the year ended 31 December 2010.

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Company Financial Statements in accordance with Generally Accepted Accounting Practice in Ireland, comprising applicable law and the accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland.

The Company's Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of its profit or loss for that year.

In preparing each of the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and,
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Financial Statements comply with the Companies Acts, 1963 to 2009. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. In this regard, they have entrusted the assets of the Company to a Custodian for safe-keeping.

The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Acts, 1963 to 2009.

## Corporate Governance Statement

The European Communities (2006/46 EC) Regulations, 2009, were signed into law on 19 November 2009, introducing a requirement for the directors of all companies with securities admitted for trading on a regulated market to make an annual statement on corporate governance. The statement is required to include commentary on compliance with applicable codes of governance, systems of risk management and internal controls together with other details, including the operation of Board and arrangements for shareholder meetings.

Relevant information on the Company's governance arrangements for the year ended 31 December 2010 are set out in this report. The Board is committed to providing shareholders with relevant and informative details of its approach to corporate governance, and proposes to further review, and where appropriate refine, its Corporate Governance Statement for the year ended 31 December 2011 in the light of experience of applying the new requirements and any relevant guidance or clarification of their requirements that may be issued.

# Director's Report (continued)

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## Corporate Governance Statement (Continued)

A corporate governance code ("the IFIA code") applicable to Irish domiciled collective investment schemes was issued by the Irish Funds Industry Association in September 2010. The board has put in place a framework for corporate governance which it believes is suitable for an Investment Company which enables the Company to comply voluntarily with the main requirements of the IFIA code, which set out principles of good governance and a code of best practice.

The board considers that the company has complied with the main provisions contained in the IFIA code throughout this accounting period.

### *Internal Control and Risk Management Systems*

The Company is responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of error or fraud in achieving the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has procedures in place to ensure all relevant accounting records are properly maintained and are readily available, including production of annual and half-yearly financial statements. The annual and half-yearly financial statements of the Company are required to be approved by the board of directors of the Company and filed with the Central Bank of Ireland and the Irish Stock Exchange. The statutory Financial Statements are required to be audited by independent auditors who report annually to the Board on their findings.

The Board evaluates and discusses significant accounting and reporting issues as the need arises.

### *Operation of the Shareholder Meetings, the Key Powers of the Shareholder Meetings, Shareholders' Rights and the Exercise of Such Rights*

The convening and conduct of shareholders' meetings are governed by the Articles of Association of the Company and the Companies Acts. Although the Directors may convene an extraordinary general meeting of the Company at any time, the Directors are required to convene an annual general meeting of the Company every calendar year within nine months of the Company's financial year-end and no more than fifteen months from the date of the previous annual general meeting. Shareholders representing not less than one-tenth of the paid up share capital of the Company may also request the Directors to convene a shareholders' meeting. Not less than twenty one days notice, of every annual general meeting and any meeting convened for the passing of a special resolution, must be given to shareholders and fourteen days' notice must be given in the case of any other general meeting unless the auditors of the Company and all the shareholders of the Company entitled to attend and vote agree to shorter notice.

Two members present either in person or by proxy constitute a quorum at a general meeting provided that the quorum for a general meeting convened to consider any alteration to the class rights of shares is two shareholders holding or representing by proxy at least one third of the issued shares of the relevant fund or class.

# Director's Report (continued)

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## Corporate Governance Statement (Continued)

### *Operation of the Shareholder Meetings, the Key Powers of the Shareholder Meetings, Shareholders' Rights and the Exercise of Such Rights (Continued)*

Every member present in person or by proxy who votes on a show of hands is entitled to one vote. On a poll, every member is entitled to one vote in respect of each share held by him. The chairman of a general meeting of the Company or at least five members present in person or by proxy or any holder or holders of participating shares present in person or by proxy representing at least one tenth of the shares in issue having the right to vote at such meeting may demand a poll.

Shareholders may resolve to sanction an ordinary resolution or special resolution at a shareholders' meeting. An ordinary resolution of the Company or of the shareholders of a particular fund or class requires a simple majority of the votes cast by the shareholders voting in person or by proxy at the meeting at which the resolution is proposed. A special resolution of the Company or of the shareholders of a particular fund or class requires a majority of not less than 75% of the shareholders present in person or by proxy and voting in general meeting in order to pass a special resolution including a resolution to amend the Articles of Association.

### *Composition and Operation of the Board of Directors and the Committees of the Board of Directors*

Unless otherwise determined by an ordinary resolution of the Company in general meeting, the number of Directors may not be less than two. Currently, the Board of Directors of the Company is composed of seven Directors, being those listed on page 1 of these Financial Statements.

The business of the Company is managed by the Directors, who exercise all such powers of the Company as are not by the Companies Acts or by the Articles of Association of the Company required to be exercised by the Company in general meeting.

A Director may, and the company secretary of the Company on the requisition of a Director will, at any time summon a meeting of the Directors. Questions arising at any meeting of the Directors are determined by a majority of votes. In the case of an equality of votes, the chairman has a second or casting vote. The quorum necessary for the transaction of business at a meeting of the Directors is two.

There are currently two sub-committees of the Board - the Pricing Committee and the Investment Committee.

## Principal Activities

The Company has been approved by the Central Bank of Ireland as an investment company pursuant to Part XIII of the Companies Act, 1990.

The objective of the Company is to generate a high real rate of return.

The Investment Manager's Report contains a review of the factors which contributed to the performance for the year. The Directors do not anticipate any changes in the structure or investment objective.

## Director's Report (continued)

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### **Risk Management objectives and policies**

The main risks arising from the Company's financial instruments are market, currency, interest rate, price, liquidity and counterparty credit risks. Further information on these are given in Note 2 to these accounts.

### **Fair Value Measurement**

The fair value of the following securities have been estimated with care and in good faith by the pricing committee as outlined below:

#### **Guatemala Electrical Trust Note (Citco Trustees Cayman Ltd 8.5% 21/12/2014)**

The Guatemala Electrical Trust Notes (Citco Trustees Cayman Ltd 8.5% 21/12/2014) are priced relative to the sovereign notes of the Republic of Guatemala, given current liquidity conditions for Emerging Markets corporate debt and the bond's relatively small issue size. This yield is regularly monitored and set by the Fund's pricing committee. The price for Guatemala Electrical Trust Notes is derived using a yield-to-price calculation based on a 450 basis point spread above the Republic of Guatemala 2013 bond. Pricing and yield information for the Guatemala Electrical Trust Notes is updated on each valuation date of the Fund.

#### **Republic of Nicaragua for the Payment of Indemnification (BPI) (Nicaragua Government International Bond 5% Nicaragua (Republic of) 01/02/2011)**

Using Bloomberg platform, the bonds are valued at a spread 700 basis points over LIBOR. The spread incorporates the pricing committee's assessment of both the average country risk of Latin American sovereign issuers and the lower rating and much lower liquidity of Nicaraguan BPI's. The Administrator's Securities Management Team (SMT) calculates the bond's price using the 6 month US\$ Dollar Libor rate and the EMBI Global Diversification Index to determine the average stripped spread of Latin American sovereign issuers. Spreads of 300 bps to compensate for lower rating and 400bps to compensate for lower liquidity are used. These spreads can be changed by the Fund's pricing committee if there is a change in the respective risk premiums.

#### **CABEI Floating Rate Note linked to ICE Costa Rica (Central American Bank for Economic Integration FRN 25/04/2015)**

The floating rate note issued by the Central American Bank for Economic Integration (CABEI) is linked to the Costa Rican telecommunications and electrical entity Instituto Costarricense de Electricidad (ICE), maturing 25 April 2015. The note has an amortising structure, which matches the cash flows generated out of the underlying loan. Amortisation started in April 2009. The pricing committee has determined that the sovereign notes of the Republic of Costa Rica, due 2012, offer the most appropriate benchmark for the CABEI note. The semi-annual amortisation schedule reduces average life to 3.7 years. The price for the notes will be derived using a yield-to-price calculation based on a 50 basis points spread over the Costa Rica 2012 sovereign bond.

The Investment Manager compares price moves in the CABEI note with those occurring in the Costa Rica 2012 bond for the same period. In addition, the Investment Manager follows the pricing of two USD bonds issued by ICE on global markets. The Administrator receives a fortnightly broker price from CABEI for this security. The broker provides supporting documentation illustrating the price calculation details including the price of Costa Rica 2012 and the yield to maturity with a spread of 0.5%.

## Director's Report (continued)

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### Events since the year end

There have been no significant events affecting the Company since the year end.

### Dividends

The Directors do not recommend the payment of a dividend.

### Substantial Shareholdings

Central American Bank for Economic Integration had an interest of 92.9% (2009: 87.38%) in the Shares of the Company at the year end.

### Directors and Secretary

The Directors who held office during the year under review were:

Alejandro Rodriguez (Costa Rican)  
Jaime Chavez (Honduran)  
Markus Kohlenbach (German)  
Michael Greene (Irish)  
Nick Rischbieth Gløe (Honduran)  
Per Åke Rydberg (Swedish) (Irish Resident)  
Mario Arana (Nicaraguan) (Retired September 2010)  
Walter Dostmann (German) (Chairman)

### Directors' Interests in Shares and Contracts

Walter Dostmann holds one subscriber share. None of the other Directors listed above who held office at the year end had any interests in the Shares of the Company at that date or at any time during the financial year.

### Transactions Involving Directors

There are no contracts or arrangements of any significance in relation to the business of the Company in which the Directors or Company Secretary had any interest as defined in the Companies Act, 1990, at any time during the financial year.

## Director's Report (continued)

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### Accounting Records

The Directors believe that they have complied with the requirements of Section 202 of the Companies Act, 1990, with regard to the books of account by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The Books of Account of the Company are maintained at:

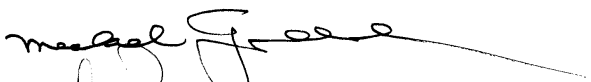

Bank of Ireland Securities Services Limited  
New Century House  
Mayor Street Lower  
International Financial Services Centre  
Dublin 1  
Ireland

### Auditors

In accordance with Section 160(2) of the Companies Act 1963, KPMG, Chartered Accountants and Registered Auditors, will continue in office.

### On Behalf of the Board of Directors

Michael Greene  
Director

Per Åke Rydberg  
Director

24 March 2011

# Report of the Custodian to the Shareholders

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We have enquired into the conduct of the CABEI Central American Fund plc - CABEI Central American Portfolio (the "Company") for the year ended 31 December 2010, in our capacity as Custodian to the Company.

This report including the opinion has been prepared for and solely for the shareholders in the Company as a body, in accordance with the Central Bank of Ireland's Non UCITS Notice 7, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown.

## Responsibilities of the Custodian

Our duties and responsibilities are outlined in the Central Bank of Ireland Non UCITS Notice 7. One of those duties is to enquire into the conduct of the Company in each annual accounting period and report thereon to the shareholders.

Our report shall state whether, in our opinion, the Company has been managed in that period in accordance with the provisions of the Company's Memorandum and Articles of Association and the Non UCITS Regulations. It is the overall responsibility of the Company to comply with these provisions. If the Company has not so complied, we as Custodian must state why this is the case and outline the steps which we have taken to rectify the situation.

## Basis of Custodian Opinion

The Custodian conducts such reviews as it, in its reasonable opinion, considers necessary in order to comply with its duties as outlined in Non UCITS Notice 7 and to ensure that, in all material respects, the Company has been managed, (i) in accordance with the limitations imposed on its investment and borrowing powers by the provisions of its constitutional documentation and the appropriate regulations, and, (ii) otherwise in accordance with the Company's constitutional documentation and the appropriate regulations.

## Opinion

In our opinion, the Company has been managed during the year, in all material respects:

- (i) in accordance with the limitations imposed on the investment and borrowing powers of the Company by the Memorandum and Articles of Association and by the Central Bank of Ireland under the powers granted to it by the Companies Act, 1990, Part XIII, and the Investment Funds Act, 2005; and,
- (ii) otherwise in accordance with the provisions of the Memorandum and Articles of Association, the Companies Act, 1990, Part XIII.



**For and on behalf of**  
**The Governor and Company of the Bank of Ireland**  
**24 March 2011**

# Independent Auditors' Report

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We have audited the Company's Financial Statements for the year ended 31 December 2010 which comprise the Balance Sheet, the Profit and Loss Account, the Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares, the Schedule of Investments and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act, 1990 and Regulation 13 of the European Communities (Directive 2006/46/EC) Regulations 2009. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by the law, we do not accept or assume responsibility to anybody other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable Irish law and the accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the Financial Statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the Company has kept proper books of account; and,
- whether the Directors' report is consistent with the Financial Statements.

We also report to you if, in our opinion, any information specified by law regarding Directors' remuneration and Directors' transactions is not disclosed and where practicable, include such information in our report.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited Financial Statements. The other information comprises only the Directors' Report, the Custodian's Report and the Investment Manager's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

# Independent Auditors' Report (continued)

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## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

## **Opinion**

In our opinion, the Financial Statements:

- give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Company's affairs at 31 December 2010 and of its results for the year then ended; and,
- have been properly prepared in accordance with the requirements of the Companies Acts, 1963 to 2009.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Company's Financial Statements are in agreement with the books of account.

In our opinion, the information given in the Directors' report is consistent with the Financial Statements.



**KPMG**

**Chartered Accountants and Registered Auditors**

**1 Harbourmaster Place**

**IFSC**

**Dublin 1**

**24 March 2011**

# Profit and Loss Account

For the year ended 31 December 2010

	Notes	Year ended 31 December 2010 US\$	Year ended 31 December 2009 US\$
<b>Income</b>			
Operating income	4	-	715
Net gains on financial assets and liabilities at fair value through profit or loss	5	<u>8,944,188</u>	<u>17,947,495</u>
<b>Total investment income</b>		8,944,188	17,948,210
Operating expenses	6	<u>(1,356,070)</u>	<u>(1,365,005)</u>
<b>Net income</b>		7,588,118	16,583,205
<b>Finance costs</b>			
Interest expense		<u>(40)</u>	<u>(58)</u>
<b>Profit for the year</b>		<u>7,588,078</u>	<u>16,583,147</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Participating Shares</b>		<u><u>7,588,078</u></u>	<u><u>16,583,147</u></u>

There are no recognised gains or losses arising in the year other than the increase in Net Assets Attributable to Holders of Redeemable Participating Shares of the Company. In arriving at the results of the financial year, all amounts above relate to continuing operations.

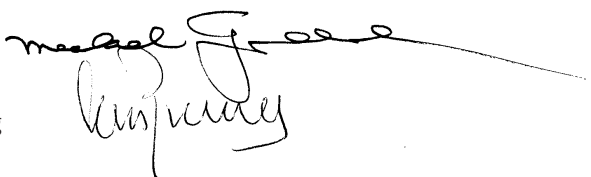
The accompanying notes form an integral part of the Financial Statements.

On Behalf of the Board of Directors

Michael Greene  
Director

Per Åke Rydberg  
Director

24 March 2011



# Balance Sheet

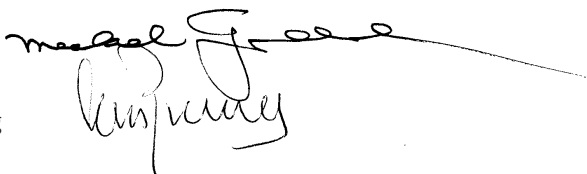
As at 31 December 2010

	Notes	As at 31 December 2010 US\$	As at 31 December 2009 US\$
<b>Assets</b>			
Cash and Bank Balances	7	8,720,653	1,681,461
Debtors	8	19,989	17,109
Debt instruments designated at fair value through profit or loss	1(b)	<u>94,480,346</u>	<u>92,779,376</u>
<b>Total Assets</b>		<u>103,220,988</u>	<u>94,477,946</u>
<b>Liabilities</b>			
Creditors (amounts falling due within one year)	9	<u>(7,116,015)</u>	<u>(180,703)</u>
<b>Total Liabilities (excluding net assets attributable to holders of redeemable participating shares)</b>		<u>(7,116,015)</u>	<u>(180,703)</u>
<b>Net Assets Attributable to Holders of Redeemable Participating Shares</b>		<u>96,104,973</u>	<u>94,297,243</u>
<b>Net Asset Value per A Share Class</b>	11	<u>1,785.64</u>	<u>1,648.03</u>

The accompanying notes form an integral part of the Financial Statements.

On Behalf of the Board of Directors

Michael Greene  
Director



Per Åke Rydberg  
Director

24 March 2011

# Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares

For the year ended 31 December 2010

	Year ended 31 December 2010 US\$	Year ended 31 December 2009 US\$
<b>Net Assets Attributable to Holders of Redeemable Participating Shares at beginning of year</b>	<u>94,297,243</u>	<u>92,751,497</u>
Increase in Net Assets resulting from operations	<u>7,588,078</u>	<u>16,583,147</u>
Amounts received on issue of Redeemable Participating Shares	90,676,360	37,004,190
Amounts paid on redemption of Redeemable Participating Shares	<u>(96,456,708)</u>	<u>(52,041,591)</u>
Decrease in Net Assets resulting from Share transactions	<u>(5,780,348)</u>	<u>(15,037,401)</u>
<b>Net increase in shareholders' funds</b>	<u>1,807,730</u>	<u>1,545,746</u>
<b>Net Assets Attributable to Holders of Redeemable Participating Shares at end of year</b>	<u><u>96,104,973</u></u>	<u><u>94,297,243</u></u>

The accompanying notes form an integral part of the Financial Statements.

# Notes to the Financial Statements

## For the year ended 31 December 2010

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### 1. Significant Accounting Policies

#### a) Basis of preparation

These Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles in Ireland and the Companies Acts, 1963 to 2009. Accounting standards generally accepted in Ireland in preparing Financial Statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board ("ASB").

The Financial Statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held at fair value through the profit or loss.

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets/(liabilities) and income/(expenses). The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The accounting policies have been applied consistently by the Company and are consistent with those in the previous year. Critical accounting judgements relating to the valuation of the funds securities are discussed in note 3.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The information required by Financial Reporting Standard (FRS) No. 3 "Reporting Financial Performance", to be included in a statement of total recognised Gains and Losses, and a Reconciliation of Movements in Shareholders Funds is, in the opinion of the Directors, contained in the Profit and Loss Account and Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares on pages 16 and 18 respectively.

All references to Net Assets, throughout this document, refer to Net Assets Attributable to Holders of Redeemable Participating Shares, unless otherwise stated.

The Financial Statements are prepared in US Dollars and rounded to the nearest US Dollar.

#### b) Investments

##### (i) Classification and Recognition

The category of financial assets and financial liabilities at fair value through profit or loss comprises:

- Financial instruments held for trading. These include futures and liabilities from short sales of financial instruments included as financial derivative instruments on the Balance Sheet. All derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities held for trading.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

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### 1. Significant Accounting Policies (Continued)

#### b) Investments (Continued)

##### (i) Classification and Recognition (Continued)

- Financial instruments designated at fair value through profit or loss upon initial recognition. These include financial assets that are not held for trading purposes and which may be sold.

The Company has designated all its investments as financial instruments held for trading.

The Company recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument, and all significant rights and access to the benefits from the assets, and the exposure to the risks inherent in those benefits, are transferred to the Company.

Financial assets that are classified as loans and receivables include deposits and accounts receivable. Financial liabilities that are not at fair value through profit or loss include accounts payable and financial liabilities arising on Redeemable Shares.

A regular way purchase of financial assets is recognised using trade date accounting. From this date, any gains and losses, arising from changes in fair value of the financial assets or financial liabilities, are recorded.

##### (ii) Measurement

Financial instruments are measured initially at fair value. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Profit and Loss Account.

Financial assets and liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

Financial liabilities, arising from the Redeemable Shares issued by the Company, are carried at the redemption amount representing the Investors' right to a residual interest in the Company's Assets.

##### (iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted dirty market prices (i.e. including accrued income) at the Balance Sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

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### 1. Significant Accounting Policies (Continued)

#### b) Investments (Continued)

##### (iii) Fair value measurement principles (Continued)

If a quoted market price is not available on a recognised stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Fair values for unquoted equity investments are estimated, if possible, using applicable price/ earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives, that are not exchange traded, is estimated at the amount that the Company would receive or pay to terminate the contract at the Balance Sheet date, taking into account current market conditions (volatility, appropriate yield curve) and the current creditworthiness of the counterparties. Realised gains and losses on investment disposals are calculated using the average cost method.

##### (iv) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously.

##### (v) Specific Instruments

Cash comprises current deposits with banks. The measurement of deposits are amortised cost. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

#### c) Cash Flow Statement

The Company has availed of the exemption available to open-ended investment funds under FRS 1 not to prepare a Cash Flow Statement.

#### d) Income

Bank interest income is accounted for on an effective yield basis. Coupon interest is included in realised and unrealised gains/losses on investments in the profit and loss account on an effective yield basis.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

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### 1. Significant Accounting Policies (Continued)

#### e) Fees and charges

In accordance with the Offering Circular, management fees, administration fees, custody fees and other operating expenses are charged to the Profit and Loss Account on an accruals basis.

#### f) Derivative Instruments

Changes in the value of the derivatives are recognised as gains and losses by marking to market on a daily basis to reflect the value of the derivative at the end of each day's trading. They are valued at the settlement price established each day on which they are traded, and the Company's investment therein, representing unrealised gain or loss on the contracts, is included in the Profit and Loss Account.

#### g) Redeemable Participating Shares

Redeemable Participating Shares are redeemable at the Shareholder's option and are classified as financial liabilities. Any distributions on these participating shares are recognised in the Profit and Loss Account as finance costs.

#### h) Gains and Losses on Investments

Realised gains or losses on disposal of investments during the period and unrealised gains and losses on valuation of investments held at the period end are dealt with in the Profit and Loss Account.

#### i) Foreign Exchange

The functional currency of the Company is US Dollars. The Directors have determined that this reflects the Company's primary economic environment, as the majority of the Company's Net Assets Attributable to Holders of Redeemable Participating Shares are in US Dollars.

Foreign exchange gains and losses on financial assets and financial liabilities at fair value through profit and loss are recognised together with other changes in the fair value. Net currency gains/(losses) as set out in Note 4, are net foreign exchange gains and losses on monetary financial assets and liabilities other than those classified at fair value through profit or loss.

Assets and liabilities denominated in foreign currencies, other than the functional currency of the Company, have been translated at the rate of exchange prevailing at 31 December 2010. Transactions in foreign currencies are translated into US Dollars at the exchange rate prevailing at the date of the transaction. Gains and losses on foreign exchange transactions are recognised in the Profit & Loss Account in determining the result for the year.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

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### 1. Significant Accounting Policies (Continued)

#### i) Foreign Exchange (Continued)

The following exchange rates were used to convert investments, assets and liabilities to the functional currency of the Company:

	As at 31 December 2010	As at 31 December 2009
	US\$1=	US\$1=
Chilean Peso (CLP)	467.9501	-
Colombian Peso (COP)	1,920.0860	2,043.0006
Costa Rican Colon (CRC)	512.9708	565.2410
Euro (EUR)	0.7454	0.6970
Mexican Peso (MXN)	12.3340	13.0554
Pound Sterling (GBP)	0.6387	0.6193

### 2. Financial Risk Management

#### Strategy in using Financial Instruments

In pursuing its investment objective, the Company is exposed to a variety of financial risks: market risk (including market price risk, interest rate risk and currency risk), credit risk and liquidity risk that could result in a reduction in the Company's net assets. The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below.

#### Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Portfolio's investment objective is to generate a high real rate of return. The Portfolio seeks to achieve this objective by investing primarily in debt and related instruments and equity and related instruments issued by sovereign issuers, their agents and instrumentalities, state-owned issuers selected for privatisation, corporate issuers, supranational issuers, quasi-governmental issuers, and any other issuer deemed fit for investment by the Directors, or a committee thereof.

The Portfolio's debt securities are susceptible to market price risk arising from uncertainties about future prices of the instruments. The Investment Manager moderates this risk through a careful selection of securities within specified limits. The Fund's pricing committee is advised by the Administrator of any individual securities that have a price movement greater than 3% from one business day to the next. After consultation with the Fund's pricing committee, the price movements may be agreed upon or amended if the committee can provide sufficient back up (two recognised price sources) that the security should be priced at a different level.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

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### 2. Financial Risk Management (Continued)

#### Market price risk (Continued)

The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Board of the Company manage the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board is informed of any unusual price variation on a timely basis. The Board meets twice yearly and at each meeting reviews investment performance and overall market positions. They monitor the Investment Manager's compliance with the Company's objectives.

Details of the nature of the Company's investment portfolio at the balance sheet date are disclosed in the Schedule of Investments on pages 40 and 41.

At 31 December 2010, the Company's market risk is affected by three main components: changes in actual market prices, interest rates and foreign currency movements. Interest rate and foreign currency movements are covered in the separate sections below.

#### *Value-at-Risk (VaR)*

Value-at-risk is currently used to derive a quantitative measurement for a fund's market risk under normal market conditions. VaR is calculated every day. The Investment Manager uses RiskMetrics Risk Manager as the engine for calculating VaR. Suitable stress tests are carried out on a weekly basis. Back-testing, for reviewing the predictive quality of the VaR model, is performed daily.

The Investment Manager receives a daily results report from Risk Manager. This report shows the VaR of the fund and its reference fund, including, where appropriate, sensitivity data. The results of stress tests are provided weekly. The Investment Manager uses these reports every day to check that statutory and contractual market-risk limits (i.e. the VaR of the Fund may not be more than twice (200%) as high as the VaR of the derivative-free comparable reference/benchmark Fund) have been observed. Their findings are to be properly taken into account in investment decisions.

The statistical VaR process is used to derive a quantitative measurement for a fund's market risk under normal market conditions. The result of the VaR calculation indicates the potential future losses for a fund (based on the market value) that will not be exceeded under normal market conditions, for a specified holding period and confidence level (e.g. 99%). The VaR method is a consistent, standard measurement that can be applied to all trading transactions and products. This enables the calculated market risk to be compared with both a specific time period and the actual return.

The Investment Manager's policy is to use historical calculation for monitoring regulatory requirements whilst VaR figures from Monte Carlo (MC) simulation are calculated for information only. Historical simulation is used because it is more transparent. Historical simulation applies the changes in market data over the previous twelve months to the current market environment. MC simulation is a model that calculates the profit or loss made by a fund in a large number of different market scenarios (generally 10,000 scenarios).

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

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### 2. Financial Risk Management (Continued)

#### Market price risk (Continued)

##### *Value-at-Risk (VaR) (Continued)*

The following quantitative specifications apply to the VaR model:

- 99% confidence level
- 10 day holding period
- one year historical time series
- equally weighted daily returns.

The main market risks addressed include: interest rate risk, credit spreads risk, equity price risk, exchange rate risk, vega risk, and their associated correlations.

##### *Assumptions and Limitations of VaR*

The standard VaR calculation is currently based on the historical market events of the last 252 trading dates. Market events not contained within this time window are not taken into account to assess potential future losses. A prerequisite to calculating VaR properly is the availability of sufficient data. VaR works well for instruments whose input variables, i.e. risk factors, are market observables or can at least be easily derived from the market. VaR relies on the availability of high-quality time series of the risk factors.

Correlations among all risk factors are calculated ad-hoc. Another important issue is changing correlation - for example, securities or asset classes which have been previously uncorrelated, might suddenly become highly correlated.

The Investment Manager calculates daily the VaR with two methods simultaneously, i.e., historical simulation and Monte Carlo simulation. However, the Monte Carlo VaR calculation is based on the assumption that returns of risk factors are normally distributed with a constant variance over time. This is a simplification of reality and “fat tails” and greater market events are underestimated.

The VaR calculation is subject to statistical sampling error. The actual losses experienced by any individual fund may be greater than the VaR. If a 99% confidence level is selected, it is expected that movement in price for 1% of observations will be outside of the VaR parameters. In a highly volatile market the VaR may underestimate the risk in the fund.

##### *VaR Analysis*

At 31 December 2010, utilising the Investment Manager’s proprietary risk model, under normal market conditions the ten day historical VaR for the CABEI Central American Portfolio is approximately 2.38%/ US\$2,120,867 (31 December 2009: 1.47%/ US\$1,399,666) at the 99% confidence level. That is, under normal market conditions and assuming no changes to shareholder capital, there is estimated to be a greater than 99% probability that the value of this Portfolio would not decrease by more than 2.38%/ US\$2,120,867 (31 December 2009: 1.47%/ US\$1,399,666) over ten days.

CABEI Central American Portfolio breached VaR estimates 5 times during the year ended 31 December 2010.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

### 2. Financial Risk Management (Continued)

#### Interest rate risk

The Fund's interest bearing financial assets and liabilities exposes it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on their financial position and cash flows.

Interest rate risk is managed, in part, by the security selection process of the Investment Manager which includes predictions of future events and their impact on interest rates, diversification and duration. In accordance with Company policy, the Investment Manager monitors the Portfolio's overall interest sensitivity on a daily basis. The Directors rely on the Investment Manager to keep them informed of any material event. There were no material changes to the Company's policies and processes for managing interest rate risk and the methods used to measure risk since the prior year end.

The tables below summarise the Fund's exposure to interest rate risks. It includes the Fund's assets and trading liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity dates.

As at 31 December 2010	Less than 1 month US\$	1 month - 1 year US\$	1 - 5 years US\$	> 5 years US\$	Non-interest bearing US\$	Total US\$
<b>Assets</b>						
Debt instruments designated at fair value through Profit and Loss	-	6,650,977	39,054,987	48,774,382	-	94,480,346
Debtors	-	-	-	-	19,989	19,989
Cash Deposits	8,720,653	-	-	-	-	8,720,653
<b>Total assets</b>	<b>8,720,653</b>	<b>6,650,977</b>	<b>39,054,987</b>	<b>48,774,382</b>	<b>19,989</b>	<b>103,220,988.00</b>
<b>Liabilities</b>						
Purchase of securities awaiting settlement	-	-	-	-	(6,947,063)	(6,947,063)
Accrued expenses	-	-	-	-	(168,952)	(168,952)
Redeemable participating shares	-	-	-	-	(96,104,973)	(96,104,973)
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(103,220,988)</b>	<b>(103,220,988.00)</b>
<b>Total interest sensitivity gap</b>	<b>8,720,653</b>	<b>6,650,977</b>	<b>39,054,987</b>	<b>48,774,382</b>	<b>(103,200,999)</b>	<b>-</b>
<b>31 December 2009</b>						
<b>Assets</b>						
Debt instruments designated at fair value through Profit and Loss	-	2,334,667	55,842,301	34,602,408	-	92,779,376
Debtors	-	-	-	-	17,109	17,109
Cash Deposits	1,681,461	-	-	-	-	1,681,461
<b>Total assets</b>	<b>1,681,461</b>	<b>2,334,667</b>	<b>55,842,301</b>	<b>34,602,408</b>	<b>17,109</b>	<b>94,477,946</b>
<b>Liabilities</b>						
Accrued expenses	-	-	-	-	(180,703)	(180,703)
Redeemable participating shares	-	-	-	-	(94,297,243)	(94,297,243)
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(94,477,946)</b>	<b>(94,477,946)</b>
<b>Total interest sensitivity gap</b>	<b>1,681,461</b>	<b>2,334,667</b>	<b>55,842,301</b>	<b>34,602,408</b>	<b>(94,460,837)</b>	<b>-</b>

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

### 2. Financial Risk Management (Continued)

#### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Certain of the Portfolio's assets and liabilities are denominated in currencies other than US Dollars, the functional currency. It is, therefore, exposed to currency risk as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates. Income denominated in foreign currencies is converted to US Dollars on receipt.

In accordance with Company policy, the Investment Manager monitors the Portfolio's currency position on a daily basis. The Directors of the Company rely on the Investment Manager to keep them informed of any material event. There were no material changes to the Company's policies and processes for managing currency risk and the methods used to measure risk since the prior year end.

The tables below documents the Fund's exposure to currency risks, measured in US\$ equivalents:

#### 31 December 2010

<b>Financial Assets - stated in US Dollars</b>	<b>CRC</b>	<b>MXN</b>	<b>EUR</b>	<b>Total US\$</b>
Financial Assets at fair value through Profit and Loss	3,544,428	5,224,733	-	8,769,161
Debtors	-	-	-	-
Cash Deposits	-	203,007	-	203,007
<b>Total assets</b>	<b>3,544,428</b>	<b>5,427,740</b>	<b>-</b>	<b>8,972,168</b>

<b>Financial Liabilities - stated in US Dollars</b>	<b>CRC</b>	<b>MXN</b>	<b>EUR</b>	<b>Total US\$</b>
Bank Overdraft	-	-	-	-
Accrued expenses	-	-	(10)	(10)
Financial Liabilities at fair value through Profit and I	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>(10)</b>	<b>(10)</b>

#### 31 December 2009

<b>Financial Assets - stated in US Dollars</b>	<b>CRC</b>	<b>MXN</b>	<b>EUR</b>	<b>Total US\$</b>
Financial Assets at fair value through Profit and Loss	3,074,181	4,300,969	-	7,375,150
Debtors	-	-	-	-
Cash Deposits	-	187,380	-	187,380
<b>Total assets</b>	<b>3,074,181</b>	<b>4,488,349</b>	<b>-</b>	<b>7,562,530</b>

<b>Financial Liabilities - stated in US Dollars</b>	<b>CRC</b>	<b>MXN</b>	<b>EUR</b>	<b>Total US\$</b>
Bank Overdraft	-	-	-	-
Accrued expenses	-	-	-	-
Financial Liabilities at fair value through Profit and I	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

### 2. Financial Risk Management (Continued)

#### Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty or an issuer will be unable to pay amounts in full when due.

The carrying amounts of financial assets as disclosed in the balance sheet best represent the maximum credit risk exposure at the balance sheet date. This relates also to financial assets carried at amortised cost, as they have a short-term to maturity.

As at 31 December 2010, the Fund's financial assets exposed to credit risk amounted to the following:

	As at 31 December 2010 US\$	As at 31 December 2009 US\$
Investments in debt instruments	<u>94,480,346</u>	<u>92,779,376</u>

Amounts in the above table are based on the carrying value of the instruments.

The Fund's financial assets exposed to credit risk were concentrated in the following sectors:

	As at 31 December 2010 %	As at 31 December 2009 %
CRC Denominated: Supranationals	3.75	3.31
MXN Denominated: Government Fixed	5.53	4.64
US\$ Denominated: Corporate Fixed	2.89	2.83
US\$ Denominated: Government Fixed	81.92	79.29
US\$ Denominated: Supranationals	5.91	9.93
	<u>100.00</u>	<u>100.00</u>

Other than outlined above, there were no significant concentrations of credit risk to counterparties at 31 December 2010 or 31 December 2009.

Credit risk arising on debt instruments is mitigated by investing primarily in financial assets which have an investment grade as rated by well-known rating agencies. For unrated assets, the Investment Manager assigns a rating using an approach that is consistent with rating agencies. At 31 December 2010, the Fund was invested in debt securities with the credit quality shown overleaf:

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

### 2. Financial Risk Management (Continued)

#### Credit risk (Continued)

#### Portfolio by Standard and Poor's rating category

Rating	As at 31 December 2010 %	As at 31 December 2009 %
AAA	3.75	3.33
A	5.53	7.30
BBB	10.77	5.60
BBB-	14.21	2.51
BB+	13.72	14.75
BB	17.97	50.97
BB-	21.61	2.89
B	2.96	3.80
Not rated	9.48	8.85
<b>Total</b>	<u>100.00</u>	<u>100.00</u>

In accordance with the Company's policy, the Investment Manager monitors the Fund's credit position on a daily basis, and the Board of Directors review it on a twice yearly basis. There were no material changes to the Company's policies and processes for managing credit risk and the methods used to measure risk since the prior year end.

All transactions in securities are settled/ paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

All of the cash and substantially all of the assets of the Fund are held by the Governor and Company of the Bank of Ireland (the "Custodian"). Bankruptcy or insolvency of the Custodian may cause the Fund's rights with respect to the cash and securities held by the Custodian to be delayed or limited. The Fund monitors its risk by monitoring the credit rating of the Custodian on a regular basis. The Custodian is rated BB+ for long term debt with Standard & Poor's.

The Sub-Custodians used by the Fund are as follows: Citibank Mexico (2.74% of investments) and Euroclear (97.26% of investments). The Sub-Custodians are rated as follows: Citibank Mexico, A1 (Moody's) and Euroclear, AA+ (Fitch) as at 31 December 2010.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

### 2. Financial Risk Management (Continued)

#### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Fund had a cash position of 9.07% to net assets on 31 December 2010 (31 December 2009: 1.78%).

(Note: There are purchases of securities awaiting settlement (Note 7 and 9) which explains the variance in the cash position to net assets from the prior year).

The Fund is exposed to daily cash redemptions of redeemable shares. The Fund generally retains a certain portion of its assets in cash, which is available to satisfy redemptions. The Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.

In accordance with Company policy, the Investment Manager monitors the Fund's liquidity position on a daily basis. The Directors of the Company rely on the Investment Manager to keep them informed of any material event. The Board is informed of any unusual liquidity issues on a timely basis. There were no material changes to the Company's policies and processes for managing liquidity risk and the methods used to measure risk since the prior year end.

The tables below analyse the Portfolio's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant. All amounts are stated in US Dollars.

<b>As at 31 December 2010</b>	<b>Less than 1 month US\$</b>	<b>More than 1 month US\$</b>	<b>Total US\$</b>
Accrued expenses	-	168,952	168,952
Purchase of securities awaiting settlement	6,947,063	-	6,947,063
Redeemable participating shares	96,104,973	-	96,104,973
<b>Total financial liabilities</b>	<b>103,052,036</b>	<b>168,952</b>	<b>103,220,988</b>
<b>As at 31 December 2009</b>	<b>Less than 1 month US\$</b>	<b>More than 1 month US\$</b>	<b>Total US\$</b>
Accrued expenses	-	180,703	180,703
Redeemable participating shares	94,297,243	-	94,297,243
<b>Total financial liabilities</b>	<b>94,297,243</b>	<b>180,703</b>	<b>94,477,946</b>

Redeemable Participating Shares are redeemed on demand at the holder's option.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

### 3. Fair Value

#### Fair Value Disclosure

FRS29 'Financial Instruments: Disclosure' requires disclosure relating to the fair value hierarchy in which fair value measurements are categorised for assets and liabilities in the Balance Sheet.

The disclosures are based on a three-level fair value hierarchy for the inputs used in valuation techniques to measure fair value.

The fair value of financial assets and liabilities traded in an active market (such as trading securities) are based on quoted market prices at the close of trading on the year end date. The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price.

A financial instrument is regarded as quoted in an active market if the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at the period end date.

This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following is a summary of the fair valuations, according to the inputs as at 31 December 2010, in valuing the Fund's assets and liabilities:

As at 31 December 2010	Quoted Prices in Active Market	Significant Other Inputs	Significant Unobservable Inputs	Total
	Level 1 US\$	Level 2 US\$	Level 3 US\$	US\$
<b>Financial Assets held for trading:</b>				
Debt instruments designated at fair value through profit or loss	-	85,519,513	8,960,833	94,480,346
<b>Total Assets</b>	<b>-</b>	<b>85,519,513</b>	<b>8,960,833</b>	<b>94,480,346</b>

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

### 3. Fair Value (Continued)

#### Fair Value Disclosure (Continued)

As at 31 December 2009	Quoted Prices in Active Market	Significant Other Inputs	Significant Unobservable Inputs	Total
Assets	Level 1 US\$	Level 2 US\$	Level 3 US\$	US\$
<b>Financial Assets held for trading:</b>				
Debt instruments designated at fair value through profit or loss	-	79,684,314	13,095,062	92,779,376
<b>Total Assets</b>	<u>-</u>	<u>79,684,314</u>	<u>13,095,062</u>	<u>92,779,376</u>

Investments whose values are based on quoted market prices in active markets, and therefore classified within Level 1, include active listed equities, exchange traded futures contracts. The Fund does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. The Level 2 amounts above represent bonds.

The Level 3 amounts above represent bonds that are priced by a pricing committee and are based on unobservable inputs.

The following is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the Fund during the year ended 31 December 2010:

	Debt Securities US\$	Total US\$
Opening Balance	12,980,189	12,980,189
Purchases	-	-
Sales	(4,123,725)	(4,123,725)
Transfers into Level 3	-	-
Gains and losses recognised in profit and loss	18,974	18,974
Closing Balance	<u>8,875,438</u>	<u>8,875,438</u>

The total gains or losses for the year included in the Profit and Loss Account for the assets held at year end, is US\$18,974. The Level 3 reconciliation, above, does not include accrued income of US\$85,395 which is reflected in the Balance Sheet total.

There were no significant transfers between Level 1, Level 2 and Level 3 during the year.

The table overleaf is a reconciliation of the fair valuations using significant unobservable inputs (Level 3) for the Fund during the year ended 31 December 2009:

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

### 3. Fair Value (Continued)

#### Fair Value Disclosure (Continued)

	Debt Securities US\$	Total US\$
Opening Balance	18,650,559	18,650,559
Purchases	-	-
Sales	(6,441,412)	(6,441,412)
Transfers into Level 3	-	-
Gains and losses recognised in profit and loss	771,042	771,042
Closing Balance	<u>12,980,189</u>	<u>12,980,189</u>

The total gains or losses for the year included in the Profit and Loss Account for the assets held at year end, is US\$771,042. The Level 3 reconciliation, above, does not include accrued income of US\$114,873 which is reflected in the Balance Sheet total.

There were no significant transfers between Level 1, Level 2 and Level 3 during the year.

#### Fair Value Measurement

The fair value of the following securities have been estimated with care and good faith by the pricing committee: Guatemala Electrical Trust Note (Citco Trustees Cayman Ltd 8.5% 21/12/2014), Republic of Nicaragua for the Payment of Indemnification (BPI) (Nicaragua Government International Bond 5% Nicaragua (Republic of) 01/02/2011) and CABEI Floating Rate Note linked to ICE Costa Rica (Central American Bank for Economic Integration FRN 25/04/2015). Guatemala Electrical Trust Note (Citco Trustees Cayman Ltd 8.5% 21/12/2014) is valued using a yield-to-price calculation. Republic of Nicaragua for the Payment of Indemnification (BPI) (Nicaragua Government International Bond 5% Nicaragua (Republic of) 01/02/2011) is valued by the Administrator as per the methodology determined by the pricing committee using input values from Bloomberg and approved by the Board. CABEI Floating Rate Note linked to ICE Costa Rica (Central American Bank for Economic Integration FRN 25/04/2015) is valued fortnightly by CABEI.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

4. Operating Income	Year ended 31 December 2010 US\$	Year ended 31 December 2009 US\$
Deposit interest	-	715
	<u>-</u>	<u>715</u>
	<u>-</u>	<u>715</u>
5. Net Gains on Financial Assets and Liabilities at Fair Value Through Profit or Loss	Year ended 31 December 2010 US\$	Year ended 31 December 2009 US\$
Realised gains/(losses) on investments	8,321,916	(1,034,621)
Net currency gains/(losses)	10,967	(23,830)
Net change in unrealised appreciation on investments	611,305	19,005,946
	<u>8,944,188</u>	<u>17,947,495</u>
	<u>8,944,188</u>	<u>17,947,495</u>
6. Operating Expenses	Year ended 31 December 2010 US\$	Year ended 31 December 2009 US\$
Administration fees	114,873	120,465
Auditors' fees	39,999	49,942
Custody fees	22,735	23,622
Directors' expenses	31,482	16,698
Directors' fees	85,209	92,782
Directors' liability insurance	14,533	37,194
Financial Services Authority fees	4,896	-
Investment Management fees	771,374	806,178
Legal - administrative & general legal support	21,016	(2,162)
Legal - fund organisation & related business	35,697	29,965
Legal - other expenses	43,761	3,998
Marketing expenses	50,001	45,435
Other expenses	6,045	15,137
Printing/publishing fees	19,450	26,335
Professional fees	94,999	99,416
	<u>1,356,070</u>	<u>1,365,005</u>
	<u>1,356,070</u>	<u>1,365,005</u>

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

7. Cash and Bank Balances	As at 31 December 2010 US\$	As at 31 December 2009 US\$
Governor and Company of the Bank of Ireland	<u>8,720,653</u>	<u>1,681,461</u>
8. Debtors	As at 31 December 2010 US\$	As at 31 December 2009 US\$
Prepaid insurance	19,989	10,915
VAT rebate receivable	-	6,194
	<u>19,989</u>	<u>17,109</u>
9. Creditors (amounts falling due within one year)	As at 31 December 2010 US\$	As at 31 December 2009 US\$
Administration fees	9,433	9,547
Auditors' fees	37,898	36,876
Custodial fees	2,358	2,386
Directors' expenses	2,177	14,181
Directors' fees	27,253	33,429
Investment Management fees	67,668	65,508
Legal - administrative & general legal support	702	1,180
Legal - fund organisation & related business	361	947
Legal - other expenses	695	628
Marketing expenses	353	4,813
Other expenses	2,634	3,309
Printing/publishing fees	11,756	163
Professional fees	5,664	7,736
Purchase of securities awaiting settlement*	6,947,063	-
	<u>7,116,015</u>	<u>180,703</u>

\* The significant movement in the level of payables outstanding at each respective year end is primarily due to the Purchase of Securities awaiting settlement.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

### 10. Share Capital

#### Subscriber Shares - Equity

The Company has equity share capital of EUR40,000 divided into 40,000 Subscriber Shares of EUR1 each (of which EUR10,005.25 has been paid up and which are beneficially owned by the Investment Manager). The Subscriber Shares do not form part of the Net Asset Value of the Company.

They are, thus, disclosed in the Financial Statements by way of this note only. In the opinion of the Directors, this disclosure reflects the nature of the Company's investment business. The Holders of Subscriber Shares are entitled to one vote only in respect of all their Subscriber Shares.

#### Redeemable Participating Shares - Liabilities

The Company has 500,000,000,000 Shares of no par value initially designated as unclassified Shares.

The Participating Shares are classified as liabilities, in accordance with Financial Reporting Standard 25 (FRS 25), as they are redeemable at the request of the Holders. The Shares are available as fully paid Redeemable Participating Shares of the Company. They carry voting rights. The Shares issued by the Company are freely transferable and entitled to participate equally in the profits and dividends of the Company and in its Net Assets upon liquidation. The Shares carry no preferential or pre-emptive rights and are entitled to one vote each at all meetings of the relevant class of Shareholders. All Shares rank pari-passu.

In accordance with the objectives listed on page 2 and the risk management policies in Note 2, the Company strives to invest the subscriptions of redeemable participating shares in appropriate investments, while maintaining sufficient liquidity to meet shareholder redemptions. The Company also invests in short-term commercial paper and debt and disposes of listed securities, when necessary, to meet liquidity needs.

The Company does not have any externally imposed capital requirements.

Shares in Issue	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
<b>Number of Class A Shares</b>			
<b>Issued and Fully Paid</b>			
Balance at beginning of year	57,218	66,660	68,015
Issued during year	51,465	23,998	6,621
Redeemed during year	(54,862)	(33,440)	(7,976)
Total number of Class A Shares in issue at end of year	<u>53,821</u>	<u>57,218</u>	<u>66,660</u>
11. Net Asset Value	As at 31 December 2010 US\$	As at 31 December 2009 US\$	As at 31 December 2008 US\$
Net Asset Value	96,104,973	94,297,243	92,751,497
Net Asset Value per A Share Class	1,785.64	1,648.03	1,391.41

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

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### 12. Fees

The Investment Manager is entitled to receive an Investment Management fee from the Company, payable monthly in arrears of 0.825% per annum, of the average daily Net Asset Value of the Portfolio.

The Investment Manager is also entitled to receive a Performance Fee of 20% of the Net Asset Value's percentage out-performance of the Hurdle Rate during the relevant year. The 'Hurdle Rate' is a 12 month Libor plus 200 basis points per annum return of the Net Asset Value at the beginning of the relevant year, adjusted for subscriptions and redemptions on a time apportioned basis.

The Performance fees were not charged to the CABEI Central American Fund plc in 2010 due to the Company falling below aforementioned Hurdle Rate at year end date.

The Custodian is entitled to a fee which is accrued daily and paid monthly in arrears at an annual rate ranging from 0.02% to 0.35% of Net Asset Value for the assets held, subject to a minimum monthly fee of US\$1,500. The Administrator is entitled to a fee which is accrued daily and paid monthly in arrears at an annual rate of 0.115% of Net Assets for the first US\$100 million of net assets and 0.07% of the Net Asset Value in excess thereof, subject to a minimum monthly fee of US\$5,000 as applicable.

### 13. Efficient Portfolio Management

The Investment Manager may utilise derivatives and other techniques and instruments (including, but not limited to, options, swaps, futures and forwards) whether the intention of providing protection against risks of gaining exposure to certain markets, sectors or securities, or otherwise of increasing the return on the Assets of the Portfolio. Such derivatives and other techniques and instruments will only be used for efficient portfolio management purposes in accordance with the conditions and limits laid down by the Central Bank of Ireland. The Investment Manager may also, when facilities become available in the relevant markets, lend the Portfolio securities and/or purchase securities subject to repurchase agreements.

During the year, the Company did not invest in any futures. However, in previous years, the Company has used futures to hedge against market price movement.

### 14. Related Party Transactions

Financial Reporting Standard 8 "Related Party Transactions" (FRS 8) requires the disclosure of information relating to material transactions with parties who are deemed to be related to the reporting entity.

#### **Investment Manager**

Related parties include the Investment Manager. Amounts earned by the Investment Manager are disclosed in Note 6 and Note 9.

#### **Directors' fee**

The total Directors' fee is disclosed in Note 6 and Note 9.

#### **Shareholding of related parties**

Central American Bank for Economic Integration ("CABEI") had an interest of 92.9% (2009: 87.38%) in the Shares of the Company at the year end. During the year CABEI subscribed 51,465 shares into the fund for \$90,676,360 and redeemed out 51,465 shares for \$90,752,587. These transactions were done on an arms length basis. Walter Dostmann (Company Chairman) holds one subscriber share.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

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### 14. Related Party Transactions (Continued)

#### Investments

The Company has investments in the notes of Central American Bank for Economic Integration, who is a significant shareholder in the Company. These investments are disclosed in the Schedule of Investments on pages 40 and 41. These investments were made in the normal course of business on an arms length basis. Some of CABEI investments during the year were sold for \$1,276,842 realising a profit of \$40,926. There were no purchases made during the year.

### 15. Taxation

The Company will not be liable for tax in respect of its income and gains, other than on the occurrence of a chargeable event. A chargeable event includes any distribution or any redemption or transfer of Shares.

A chargeable event does not include:

- i) Any transactions in relation to Redeemable Participating Shares held in a recognised clearing system as designated by order of the Revenue Commissioners of Ireland; or,
- ii) An exchange of Redeemable Participating Shares representing one Sub-fund for another Sub-fund of the Company; or,
- iii) An exchange of Redeemable Participating Shares arising on a qualifying amalgamation or reconstruction of the Company with another fund.

A chargeable event will not occur in respect of Redeemable Participating Shareholders who are neither resident nor ordinarily resident in Ireland and who have provided the Company with a relevant declaration to that effect. There were no chargeable events during the year.

In the absence of an appropriate declaration, the Company will be liable for Irish tax on the occurrence of a chargeable event and the Company reserves its right to withhold such taxes from payments to relevant shareholders.

Capital gains, dividends and interest received may be subject to withholding taxes imposed by the country of origin and such taxes may not be recoverable by the Company or its Shareholders. A chargeable event includes any distribution payment to shareholders or any encashment, redemption or transfer of shares or an ending of a relevant period.

### 16. Soft Commission Arrangements

There are no soft commission arrangements affecting the Company during the year.

### 17. Material Changes During the Year

There were no material changes affecting the Company during the year.

### 18. Comparative Figures

The comparative figures are for the twelve months to 31 December 2009.

# Notes to the Financial Statements

## For the year ended 31 December 2010 (continued)

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### 19. Post Balance Sheet Events

There have been no events subsequent to the year end, which, in the opinion of the Directors of the Company, may have had an impact on the Financial Statements for the year ended 31 December 2010.

### 20. Approval of Financial Statements

The Financial Statements were approved by the board on 24 March 2011.

# Schedule of Investments as at 31 December 2010

As at 31 December 2010

Holdings	Financial assets at fair value through profit or loss	Fair Value US\$	% of Net Assets
<b>Bonds - 98.31% (2009 - 98.39%) - Principal Amount (a)</b>			
<b>Costa Rican Colon - 3.69% (2009 - 3.26%) - denominated</b>			
<b>Suprationals - 3.69% (2009 - 3.26%)</b>			
CRC1,820,000,000	Inter-American Development Bank 7.4% 11/10/2012	3,544,428	3.69
<b>Total Costa Rican Colon - denominated</b>		<b>3,544,428</b>	<b>3.69</b>
<b>Mexican Peso - 5.44% (2009 - 4.56%) - denominated</b>			
<b>Government Bonds - 5.44% (2009 - 4.56%)</b>			
MXN31,400,000	Mexican Bonos 7.75% 14/12/2017	2,710,511	2.82
MXN28,900,000	Mexican Bonos 8% 11/06/2020	2,514,222	2.62
<b>Total Mexican Peso - denominated</b>		<b>5,224,733</b>	<b>5.44</b>
<b>United States Dollar - 89.18% (2009 - 90.57%) - denominated</b>			
<b>Corporate Bonds - 2.84% (2009 - 2.78%)</b>			
2,500,000	CITCO Trustees Cayman Ltd 8.5% 21/12/2014	2,730,903	2.84
<b>Government Bonds - 80.54% (2009 - 78.02%)</b>			
4,000,000	Colombia Government International Bond 8.25% 22/12/2014	4,730,083	4.92
5,500,000	Costa Rica Government International Bond 6.548% 20/03/2014	6,233,539	6.49
1,800,000	Costa Rica Government International Bond 8.05% 31/01/2013	2,067,778	2.15
3,300,000	Costa Rica Government International Bond 9.995% 01/08/2020	4,658,431	4.85
1,000,000	Dominican Republic International Bond 7.5% 06/05/2021	1,081,458	1.13
1,646,771	Dominican Republic International Bond 9.5% 27/09/2011	1,720,555	1.79
4,550,000	El Salvador Government International Bond 7.375% 01/12/2019	5,032,964	5.24
2,300,000	El Salvador Government International Bond 7.65% 15/06/2035	2,422,820	2.52
9,000,000	El Salvador Government International Bond 7.75% 24/01/2023	10,294,188	10.71
2,500,000	El Salvador Government International Bond 8.5% 25/07/2011	2,667,083	2.78
1,500,000	Guatemala Government International Bond 10.25% 08/11/2011	1,616,385	1.68
5,500,000	Guatemala Government International Bond 8.125% 06/10/2034	6,870,512	7.15
7,200,000	Guatemala Government International Bond 9.25% 01/08/2013	8,485,500	8.83
2,000,000	Mexico Government International Bond 5.625% 15/01/2017	2,264,584	2.36
4,000,000	Mexico Government International Bond 5.875% 17/02/2014	4,514,778	4.70
3,000,000	Mexico Government International Bond 5.95% 19/03/2019	3,395,575	3.53
636,540	Nicaragua Government International Bond FRN 01/02/2011	646,954	0.67
4,700,000	Panama Government International Bond 5.2% 30/01/2020	5,063,950	5.27
2,000,000	Panama Government International Bond 7.125% 29/01/2026	2,465,167	2.56
1,000,000	Panama Government International Bond 7.25% 15/03/2015	1,165,000	1.21

## Schedule of Investments as at 31 December 2010 (continued)

Holdings	Financial assets at fair value through profit or loss	Fair Value US\$	% of Net Assets
	<b>Bonds (continued) - 98.31% (2009 - 98.39%) - Principal Amount (a)</b>		
	<b>United States Dollar (continued) - 89.18% (2009 - 90.57%) - denominated</b>		
	<b>Supranationals - 5.80% (2009 - 9.77%)</b>		
5,192,308	Central American Bank for Economic Integration FRN 25/04/2015	5,582,978	5.80
	<b>Total US Dollar - denominated</b>	<b>85,711,185</b>	<b>89.18</b>
	<b>Total Bonds</b>	<b>94,480,346</b>	<b>98.31</b>
	<b>Total Value of Investments (Cost: USD 89,090,040)</b>	<b>94,480,346</b>	<b>98.31</b>
	<b>Cash*</b>	<b>8,720,653</b>	<b>9.07</b>
	<b>Other Net Liabilities</b>	<b>(7,096,026)</b>	<b>(7.38)</b>
	<b>Net Assets Attributable to Holders of Redeemable Participating Shares</b>	<b>96,104,973</b>	<b>100.00</b>

\*All cash holdings are held with The Governor and Company of the Bank of Ireland.  
(a) in US Dollars, unless noted.

### Analysis of Total Net Assets

	% of Fund
Transferable securities dealt in another regulated market (includes bonds).	98.31
Other Net Assets (net of liabilities).	1.69
	<b>100.00</b>

# Schedule of Portfolio Changes

## For the year ended 31 December 2010 - US Dollar (unless noted)

### Largest Purchases

Principal Amount		Cost US\$
5,500,000	Guatemala Government Bond 8.125% 6/10/2034	9,888,730
4,700,000	El Salvador Government International Bond 7.65% 15/6/2035	9,793,680
4,700,000	Panama Government International Bond 5.2% 30/1/2020	9,696,795
4,000,000	Colombia Government International Bond 7.375% 18/3/2019	7,728,000
4,000,000	Colombia Government International Bond 8.25% 22/12/2014	6,885,000
4,000,000	Mexico Government International Bond 5.875% 17/2/2014	6,543,198
4,000,000	El Salvador Government International Bond 7.375% 1/12/2019	6,307,950
3,300,000	Costa Rica Government International Bond 9.995% 1/8/2020	5,974,000
MXN28,900,000	Mexican Bonos 8% 11/6/2020	5,292,000
2,000,000	Mexico Government International Bond 5.625% 15/1/2017	5,214,250
2,100,000	Dominican Republic International Bond 7.5% 6/5/2021	5,121,400
1,000,000	Colombia Government International Bond 7.375% 18/9/2037	5,099,450
1,000,000	Guatemala Government Bond 9.25% 1/8/2013	4,968,750
1,092,977	Dominican Republic International Bond 9.04% 23/1/2018	4,771,400
900,000	Panama Government International Bond 7.125% 29/1/2026	4,213,368
500,000	Guatemala Government Bond 10.25% 8/11/2011	3,795,100
400,000	Costa Rica Government International Bond 8.05% 31/1/2013	3,790,000
2,300,000	Mexican Bonos 7.75% 14/12/2017	2,530,000

### Largest Sales

Principal Amount		Proceeds US\$
9,250,000	El Salvador Government International Bond 8.5% 25/7/2011	9,956,625
5,000,000	Guatemala Government Bond 9.25% 1/8/2013	5,861,500
4,000,000	Colombia Government International Bond 7.375% 18/3/2019	5,054,000
4,500,000	Guatemala Government Bond 10.25% 8/11/2011	5,050,500
2,400,000	El Salvador Government International Bond 7.65% 15/6/2035	2,712,000
2,100,000	Panama Government International Bond 7.125% 29/1/2026	2,651,250
2,000,000	Panama Government International Bond 7.25% 15/3/2015	2,270,000
MXN25,000,000	Mexican Bonos 9.5% 18/12/2014	2,146,067
1,800,000	Mexico Government International Bond 5.95% 19/3/2019	1,912,500
1,500,000	Colombia Government International Bond 7.375% 27/1/2017	1,691,250
1,500,000	Costa Rica Government International Bond 6.548% 20/3/2014	1,646,250
1,000,000	Colombia Government International Bond 7.375% 18/9/2037	1,275,000
1,100,000	Dominican Republic International Bond 7.5% 6/5/2021	1,254,550
1,092,977	Dominican Republic International Bond 9.04% 23/1/2018	1,213,232
1,000,000	El Salvador Government International Bond 7.75% 24/1/2023	1,171,000
1,166,667	Central American Bank for Economic Integration FRN 1/6/2010	1,166,667
1,000,000	Costa Rica Government International Bond 8.05% 31/1/2013	1,127,500
1,000,000	El Salvador Government International Bond 7.375% 1/12/2019	1,062,500
500,000	Colombia Government International Bond 8.25% 22/12/2014	587,500

# NOTES

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